

Message Text

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ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 /026 R

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-----071389 010255Z /63

P 010120Z APR 78
FM SECSTATE WASHDC
TO AMEMBASSY LIMA PRIORITY

C O N F I D E N T I A L STATE 083825

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E.O. 11652: GDS

TAGS: EFIN, PE

SUBJECT: PERU AND THE PARIS CLUB

REFTEL: LIMA 2597

1. WE APPRECIATE EMBASSY INFORMATION PROVIDED REFTEL. IN OUR VIEW, GOP REQUEST FOR CREDITOR CLUB RENEGOTIATION OF PERU'S OFFICIAL DEBT HAS BECOME INCREASINGLY LIKELY. EMBASSY SHOULD NOT REPEAT NOT RAISE THE ISSUE WITH THE GOP. U.S. AGREED IN GENEVA AT UNCTAD DEBT MINISTERIAL THAT THE DECISION TO INITIATE A REQUEST FOR DEBT RESCHEDULING IS THE SOLE PREROGATIVE OF THE DEBTOR COUNTRY.

2. THE DECISION ON WHETHER OR NOT A DEBTOR COUNTRY INITIATE CREDITOR CLUB ACTION IS A DIFFICULT ONE. IT
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INVOLVES AN ARRAY OF ISSUES SUCH AS THE COUNTRY'S DEBT STRUCTURE, RAMIFICATIONS ON THE DEBTORS INTERNATIONAL CREDITWORTHINESS, THE DEBTOR'S RELATIONSHIPS WITH CREDITORS (OFFICIAL AND PRIVATE), AND THE LEVEL OF CONDITIONALITY ASSOCIATED WITH CREDITOR CLUB RENEGOTIATION. WE WOULD IN NO WAY WISH TO ENCOURAGE OR DISCOURAGE THE GOP IN SUCH A DECISION.

3. IF, HOWEVER, THE ISSUE IS RAISED BY THE GOP, YOU

SHOULD STATE THAT THE USG WOULD BE WILLING TO PARTICIPATE IN MULTILATERAL CREDITOR CLUB CONSIDERATION OF ANY GOP REQUEST FOR DEBT RENEGOTIATION. EVIDENCE SHOULD CLEARLY SHOW THAT DEBT RELIEF FROM OFFICIAL CREDITORS IS WARRANTED; I.E., PERU IS UNABLE TO MEET DEBT SERVICE ON THOSE OBLIGATIONS. YOU SHOULD STATE FURTHER THAT THE USG IS SYMPATHETIC TO THE GOP'S EFFORTS TO OVERCOME ITS CURRENT FINANCIAL DIFFICULTIES AND THAT -- IF CREDITORS AGREED THAT THE MERITS OF THE SITUATION WARRANTED DEBT RENEGOTIATION, WE WOULD WORK TO ASSURE SUCH NEGOTIATIONS WOULD BE COMPLETED EXPEDITIOUSLY IN ORDER TO REDUCE TO A MINIMUM ANY UNCERTAINTIES ASSOCIATED WITH THEM.

4. WHILE EMPHASIZING USG UNDERSTANDING OF THE GOP'S DIFFICULTIES, YOU SHOULD REMIND THE GOP OF THE CRITERIA TRADITIONALLY EMPLOYED IN CREDITOR CLUB RENEGOTIATIONS.

IN PARTICULAR:

(A) RENEGOTIATIONS WOULD BE CONTINGENT ON THE GOP UNDERTAKING A COMPREHENSIVE ECONOMIC PROGRAM TO STRENGTHEN ITS BALANCE OF PAYMENTS SITUATION. IT WOULD, THEREFORE, CONFIDENTIAL

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BE PREMATURE TO CONVENE A PARIS CLUB UNTIL GOP IS IN COMPLIANCE WITH AN IMF PROGRAM.

(B) RENEGOTIATION REQUIRES DEBTOR COUNTRY COMMITMENT NOT TO PROVIDE NON-PARTICIPATING CREDITOR COUNTRIES WITH MORE FAVORABLE TREATMENT THAN THAT ACCORDED CREDITORS PARTICIPATING IN THE CREDITOR CLUB. IN PERU'S CASE, THIS WOULD APPLY TO THE USSR AND EASTERN EUROPEAN CREDITORS WHO TRADITIONALLY HAVE REFUSED TO PARTICIPATE IN CREDITOR CLUBS.

(C) RENEGOTIATION OF OFFICIAL DEBT REQUIRES DEBTOR COUNTRY AGREEMENT TO SEEK COMPARABLE TREATMENT FROM PRIVATE CREDITORS.

IT SHOULD BE MADE CLEAR TO GOP THAT USG DECISION IN RESPONSE TO GOP REQUEST FOR OFFICIAL DEBT RESCHEDULING WOULD BE BASED ON CONSIDERATIONS DESCRIBED ABOVE. COOPER

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NEGOTIATIONS, DEBT REPAYMENTS, CREDIT PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE083825
Document Source: CORE
Document Unique ID: 00
Drafter: BGCROWE
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780141-0526
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197804103/aaaadjts.tel
Line Count: 112
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d36735a6-c288-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 78 LIMA 2597
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 25 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2825995
Secure: OPEN
Status: NATIVE
Subject: PERU AND THE PARIS CLUB
TAGS: EFIN, PE, PARIS CLUB
To: LIMA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/d36735a6-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014